

ANNUAL REPORT
OF
THE KROGER GROCERY & BAKING COMPANY

FOR THE FISCAL YEAR 1939

Ended December 30, 1939

**ANNUAL REPORT OF
THE KROGER GROCERY & BAKING COMPANY
FOR THE FISCAL YEAR 1939, ENDED DECEMBER 30, 1939**

February 9, 1940.

TO THE SHAREHOLDERS:

This report is for Kroger's fiscal year beginning January 1, 1939, and ending December 30, 1939 (52 weeks).

At the threshold of this report, I wish to call your attention to the substance and objectives of several amendments to our Articles of Incorporation and Code of Regulations described in the attached Proxy Statement and given in full in the text of Amendments to the Articles of Incorporation appended hereto, which will be presented to the shareholders at the Annual Meeting, March 6, 1940.

In the main the changes proposed by the amendments are intended to make your Company's Articles and Code of Regulations conform to amendments to the Ohio Corporation Code adopted during the last ten years. They are important largely from a legal standpoint. Approximately half of the text in the Articles relates to and retains the original provisions regarding Preferred Stock, except that this amendment reduces the amount of authorized Preferred to a total of 967 shares (\$100 par) of \$96,700. While the provisions may seem elaborate, yet they must be retained in the Articles until the last share of Preferred Stock is retired.

Comparative financial and operating statistics will be found, in condensed form, on a separate page of this report.

Sales for the fiscal year 1939 (52 weeks) were \$243,356,605 as compared to sales for 1938 (52 weeks) of \$231,295,622, an increase of 5.2%.

Net income, (after provision for Federal taxes on income) for the fiscal year 1939, was \$5,514,597, or \$3.02 per share after Preferred dividends, as compared to earnings for the fiscal year 1938 of \$3,741,569, or \$2.05 per share, an increase of 47%.

During 1939 there was distributed under the profit-sharing plans as a part of the employment arrangements with certain key men the sum of \$506,432 and by special action of the Board, the sum of \$363,727 to other key men and employees who were not under profit-sharing arrangements. The aggregate of these distributions amounted to \$870,159, or \$0.48 per share. These distributions were in addition to the regular weekly payments on sales and gross profits made to store managers and meat masters.

On December 30, 1939, your Company had no future commitments for the purchase and sale of commodities which would materially affect its financial position or earnings. The rapidity of our inventory turn-over minimizes the possibility of inventory losses.

In accordance with current tendencies in corporation reporting, your Board of Directors has authorized a change in its previous practice so as to consolidate statements of its subsidiary, the Piggly Wiggly Corporation, with those of your Company, and its other subsidiaries. The principal assets of the Piggly Wiggly Corporation, at the date of acquisition in 1928 were, and at the present time are, good-will, patents, copyrights, and other intangibles which are carried on the books of the Piggly Wiggly Corporation at amounts aggregating approximately five and one-half million dollars. Since 1932, Kroger has not carried any intangibles

of its own in its annual reports. In order to harmonize its past policies regarding intangibles with its present policy of consolidating the statements of the Piggly Wiggly Corporation in Kroger's annual reports, your Board of Directors has authorized the writing down on Kroger books of the carrying value of its Piggly Wiggly stock to the extent that such value reflects intangibles. The amount of said write-down has been charged to Kroger's earned and capital surplus. The net income of the Piggly Wiggly Corporation for 1939 is included under the caption "Net Income of Subsidiary Companies" in the accompanying Consolidated statement of income and earned surplus.

Through the joint research, over a number of years, of the Mellon Institute, the Westinghouse Electric and Manufacturing Company and the Kroger Food Foundation, there was perfected and made available to packers and meat merchants during 1939, a patented process for tenderizing meat, known as the Tenderay Process. The patents are owned jointly by Westinghouse and Kroger, the latter having exclusive right to the use of the process in its territory for a number of years. Its use by Kroger in one branch for the past ten months has produced marked results in the sales and profits in that branch. It is hoped that the installation of Tenderay plants in other branches will be completed during 1940.

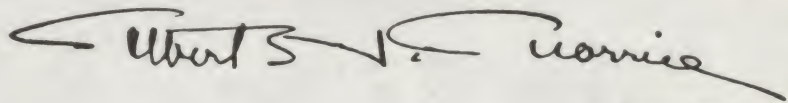
In September, 1939, Kroger acquired all the assets and going business of the Oakley chain of 58 stores, located in and around Terre Haute, Indiana, together with the services of Mr. H. N. Oakley, who owned and managed this enterprise. The operations of this unit to date have proved satisfactory.

A material expansion of buildings and equipment devoted to manufacturing has been initiated or accomplished during 1939. This expansion was made necessary by increased demand for Kroger manufactured products. A peanut plant has been erected and is in operation at Oglethorpe, Georgia; additions are under construction to our Cincinnati General Factory, our Packing Plant at Columbus, Ohio, and our bakery at St. Louis. Contracts for a new retail warehouse, to be erected and leased to your Company, at Charleston, West Virginia, have been let.

Your Company has had no industrial disputes during 1939 that have not been amicably adjusted. Increasingly, we hope, the problems of management and personnel are being better understood, each by the other. In our business, which cannot be mechanized, success or failure is dependent on personnel. To the harmonious, aggressive and cooperative efforts of our personnel during the past year is credited the results of our 1939 operations.

Two of the nominees for the office of directors, named in the accompanying Proxy Statement, have not been members of your Board, Mr. Joseph Bappert and Mr. William L. Campbell. Mr. Bappert is General Manager of our Retail Operating Division, and Mr. Campbell is General Manager of our Manufacturing Division. The former has come up through the ranks and has to his credit twenty-seven years of service with your Company, and the latter has managed and developed Kroger's manufacturing operations during the last eight and one-half years.

Respectfully submitted,



Albert S. Warner
President.

CONSOLIDATED BALANCE SHEET

ASSETS

Cash on hand and demand deposits.....		\$ 13,032,956.82
Marketable securities, at cost (quoted market value \$99,975).....		99,875.00
Notes and accounts receivable, less allowance for losses:		
Customers, including relief agencies.....	\$ 1,117,903.45	
Employees	11,498.65	
Vendors and others.....	467,730.14	1,597,132.24
Inventories of merchandise, at lower of cost or market.....		21,566,958.50
Prepaid insurance, rent, taxes, etc.....		550,612.24
		<hr/>
TOTAL CURRENT ASSETS		36,847,534.80

Deferred claims receivable, less allowance for losses.....		113,483.29
Stocks, bonds, mortgage notes, etc., at ledger values, less allowance for losses.....		48,152.39
Common stock of company held for sale to employees (8,151 shares)		89,020.58

FIXED ASSETS:

Land and buildings, as appraised by The American Appraisal Company, Harry S. Cutmore and Associates, C. G. Richardson, C. E., and the real estate department of the company, as at January 1, 1933, with subsequent additions at cost:

Land	1,377,832.25
Buildings	\$ 9,022,579.27

Machinery and equipment, as appraised by The American Appraisal Company, as at January 1, 1933, with subsequent additions at cost.....

19,532,804.14

Automotive equipment, etc., at cost.....

4,342,118.14

32,897,501.55

Less, allowance for depreciation and obsolescence

18,280,891.33

14,616,610.22

15,994,442.47

Store and general supplies and deferred charges to future operations

750,657.92

\$ 53,843,291.45

TO THE BOARD OF DIRECTORS,
THE KROGER GROCERY & BAKING COMPANY,
CINCINNATI, OHIO.

We have examined the consolidated balance sheet of The Kroger Grocery & Baking Company and subsidiary companies therewith, we reviewed the system of internal control and the accounting procedures of the companies and, without making reservations, we found them satisfactory in all material respects.

In our opinion, the foregoing consolidated balance sheet and related consolidated statements of income and surplus for the year ended December 31, 1939, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles, present fairly the financial position of the investment of Piggly Wiggly Corporation as described on page 2 of the president's report for the year 1939.

Cincinnati, Ohio,
February 6, 1940.

LIABILITIES

Accounts payable, vendors, etc.....	\$ 4,327,553.33
Accrued expenses, taxes, etc.....	2,379,797.40
Provision for Federal taxes, current and prior years.....	1,901,747.34
Dividends payable	10,540.08
TOTAL CURRENT LIABILITIES	8,619,638.15

Reserve for self-insurance and contingencies.....	410,296.87
Interest of minority stockholders in net tangible assets of Piggly Wiggly Corporation.....	6,146.56

CAPITAL

Preferred capital stock outstanding:			
First preferred, 6% par \$100.....	\$ 50,700.00		
Second preferred, 7% par \$100.....	46,000.00	\$	96,700.00
Common capital stock without par value:			
(Authorized 3,000,000 shares)			
Issued	<i>Shares</i> 1,848,278		
Less, in treasury.....	17,393		
Outstanding	1,830,885		33,398,249.80
Capital surplus, as annexed.....			10,488.53
Earned surplus, as annexed.....		11,301,771.54	44,807,209.87
			<u>\$ 53,843,291.45</u>

panies as at December 30, 1939, and the consolidated statements of income and surplus for the year then ended. In connection
a detailed audit of the transactions, examined or tested accounting records and other supporting evidence of the companies,
present fairly the consolidated position of The Kroger Grocery & Baking Company and subsidiary companies at December
accounting principles applied on a basis consistent with that of the preceding year, excepting for the change in treatment

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors.

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

FOR THE PERIOD FROM JANUARY 1, 1939 TO DECEMBER 30, 1939

Net sales		\$243,356,605.42
Cost of sales, including warehousing and transportation expenses, excluding depreciation		<u>192,392,174.27</u>
		50,964,431.15
Operating, general and administrative expenses, excluding depreciation		<u>42,303,128.51</u>
Profit from operations before allowance for depreciation, net income of subsidiary companies, and provision for Federal income taxes		8,661,302.64
Allowance for depreciation		<u>2,370,498.22</u>
		6,290,804.42
Interest earned, less interest paid		<u>35,401.57</u>
		6,326,205.99
Net income of subsidiary companies after depreciation of \$23,756.04, provision for Federal income taxes of \$65,542.19, and minority stockholders' interest in earnings of subsidiary company of \$1,394.68		<u>304,691.04</u>
Net income before provision for Federal income taxes		6,630,897.03
Provision for Federal income taxes		<u>1,116,300.00</u>
NET INCOME		5,514,597.03
Earned surplus, January 1, 1939		14,732,026.02
Undistributed profits of Piggly Wiggly Corporation accrued from the date of acquisition of the stock in 1928 to December 31, 1938		<u>56,467.73</u>
		20,303,090.78
Write-off of intangible assets of Piggly Wiggly Corporation	\$ 5,486,578.86	
Less, amount thereof charged to capital surplus	<u>1,047,760.62</u>	<u>4,438,818.24</u>
		15,864,272.54
Cash dividends paid in the fiscal period ended December 30, 1939:		
First preferred \$6.00 per share	3,042.00	
Second preferred \$7.00 per share	3,220.00	
Common \$2.50 per share	<u>4,556,239.00</u>	<u>4,562,501.00</u>
Earned surplus, December 30, 1939		<u>\$ 11,301,771.54</u>

STATEMENT OF CAPITAL SURPLUS

FOR THE PERIOD FROM JANUARY 1, 1939 TO DECEMBER 30, 1939

Balance, January 1, 1939	\$ 1,047,760.62
Profit from sale of 745 shares of The Kroger Grocery & Baking Company common stock ..	<u>10,488.53</u>
	1,058,249.15
Portion of write-off of intangible assets of Piggly Wiggly Corporation charged to capital surplus ..	<u>1,047,760.62</u>
Balance, December 30, 1939	<u>\$ 10,488.53</u>

FINANCIAL AND OPERATING STATISTICS

FOR THE FISCAL YEARS 1932 TO 1939, INCLUSIVE

	1932	1933	1934	1935	1936	1937	1938	1939
PROFIT AND DIVIDENDS								
Final Net Profit—Dollars per Share.	1.47	2.51	2.31	2.25	1.91	1.62	2.05	3.02
—Total Dollars	2,740,867	4,546,203	4,198,241	4,110,926	3,487,832	2,950,340	3,741,569	5,514,597
Cash Dividends Paid								
Per Common Share	1.00	1.00	1.80	1.60	1.90	1.60	1.90	2.50
STOCK								
Number Shares Common Stock outstanding with Public—End of Year . .	1,811,091 ^{1/20}	1,792,366 ^{1/20}	1,810,293 ^{1/20}	1,821,989	1,821,989	1,821,989	1,821,989	1,822,734
Number Shareholders—End of Year .	20,680	19,605	20,633	22,537	24,535	26,226	25,983	25,202
SALES								
Total Sales—Dollars	213,159,743	205,691,715	221,175,330	229,907,884	242,273,498	248,444,230	231,295,622	243,356,605
Average Retail Sales—								
Dollars Per Store Per Week	848	861	968	1,018	1,060	1,122	1,091	1,187
STORES								
In Operation at End of Year:								
Grocery	4,737	4,400	4,352	4,250	4,212	4,108	3,992	3,958
Meat	2,845	2,767	2,748	2,653	2,626	2,482	2,278	2,293
Average Number Operated During Year:								
Grocery	4,816	4,573	4,356	4,286	4,239	4,169	4,032	3,943
Meat	2,877	2,815	2,745	2,694	2,655	2,547	2,339	2,256
EMPLOYEES								
Number Full-Time Employees at End of Year	18,367	20,872	22,023	21,611	21,429	21,515	20,498	21,691
BALANCE SHEET STATISTICS								
Current Ratio	4.81	4.60	4.35	4.85	4.22	4.63	4.49	4.27
Cash, U. S. Government and Municipal Securities:								
Dollars	12,035,381	9,890,785	9,091,800	10,837,664	9,943,788	12,123,820	14,889,287	13,132,832
Ratio to Current Liabilities	2.00	1.48	1.21	1.57	1.20	1.64	1.87	1.52
Inventories—Dollars	14,589,421	18,627,029	20,916,910	20,129,097	22,692,864	19,985,345	18,851,393	21,566,958
Fixed Assets in Percent of Total Assets	32	29	28	28	27	27	25	30
Net Working Capital—Dollars	22,920,966	24,138,697	25,202,194	26,550,609	26,734,286	26,878,892	27,801,102	28,227,897

The Kroger Grocery & Baking Company

Executive Offices: 35 East Seventh Street

CINCINNATI, OHIO

OFFICERS

ALBERT H. MORRILL, *President and General Manager*

CHARLES M. ROBERTSON,
Vice-President and Treasurer

JOHN H. SADLER,
Secretary and Assistant Treasurer

F. M. GRIEME, *Assistant Treasurer*

T. S. BURNS, *Assistant Secretary*

J. M. MARKLEY, *Assistant Secretary*

DIRECTORS

BOLTON S. ARMSTRONG, Cincinnati
President, The Mabley and Carew Co.

CARL M. JACOBS, Cincinnati
Member, Frost & Jacobs

WALTER A. DRAPER, Cincinnati
President, The Cincinnati Street Railway Company

A. T. KEARNEY, Chicago
McKinsey, Kearney & Co.

CHARLES W. DUPUIS, Cincinnati
President, The Central Trust Company

CHESTER F. KROGER, Cincinnati
Capitalist

HARRY J. GILLIGAN, Cincinnati
John J. Gilligan & Son

ALBERT H. MORRILL, Cincinnati
*President, The Kroger Grocery & Baking Company;
Piggly Wiggly Corporation*

JOHN M. HANCOCK, New York
Partner, Lehman Brothers

CHARLES M. ROBERTSON, Cincinnati
*Vice-President and Treasurer,
The Kroger Grocery & Baking Company*

L. J. HUERKAMP, Cincinnati
*Branch Manager,
The Kroger Grocery & Baking Company*

JOHN R. RONEY, Chicago
Capitalist

JOHN H. SADLER, Cincinnati
*Secretary and Asst. Treasurer,
The Kroger Grocery & Baking Company*

PUBLIC AUDITORS

Lybrand, Ross Bros. & Montgomery

GENERAL COUNSEL

Frost & Jacobs

TRANSFER AGENTS

The Provident Savings Bank and Trust Company, Cincinnati
Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Commercial National Bank and Trust Company of New York, New York